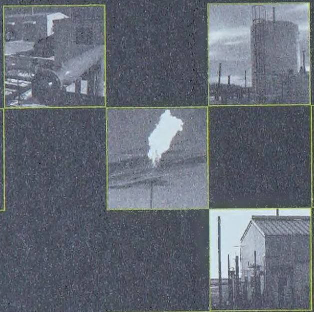
GROWTH SUCCESS

DOMINANCE

GALLEON ENERGY 2005 ANNUAL REPORT



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Notice of Annual Meeting

The Annual Meeting of Galleon Energy Inc. will be held at 3 pm on Thursday, May 11, 2006 at the Westin, 320 – 4th Avenue SW, Calgary, Alberta T2P 2S6. Shareholders are encouraged to attend the meeting. Shareholders who are unable to attend are urged to complete, sign and return their form of proxy mailed with this report and the accompanying Information Circular — Proxy Statement.

Report to Shareholders

Galleon was formed three years ago with the purpose of building a quality, growth company to deliver value to the shareholders. This objective has guided us and been in the forefront of our decision making throughout the execution of the business plan. We have opted for the best opportunities to translate into value. This success has been centered around people.

Key strategies have included:

- Grow through a balanced business plan comprised of focused exploration, strategic acquisitions and controlled exploration
- Maintain a high quality asset base
- Maintain a strong balance sheet

Measures of the success of the plan have been growth in reserves and production per share. In the course of the last year, growth of 260% and 157% has been achieved by these measures.

Galleon commenced operations in the summer of 2003.

In 2003, the focus was on accessing land and identifying drilling opportunities with 191,000 gross acres assembled, 12 wells drilled (75% success) and 40 locations identified. The initial $10.25 million public financing allowed for this assembly to commence. Production averaged 40 Boe/d.

By the end of 2004, land access grew to 385,000 gross acres, 51 wells were drilled (67% success) and 80 locations were in inventory. Equity financings of $61.2 million fuelled the growth. Annual production averaged 1,581 Boe/d, with cash flow of $10.2 million. On a per share basis, proven and probable reserves increased by 125% and daily average fourth quarter production increased from 2003 by 474%.

At December 31, 2005, Galleon had assembled access to 760,000 gross acres and identified 195 locations. In 2005, 74 wells (88% success) were drilled, equity financings totaled $102.9 million, and production averaged 6,539 Boe/d with cash flow reaching $78.1 million.

During 2005, the opportunity portfolio expanded to include four multi-zone, multi-year projects being multi-zone gas, tight gas, light sweet oil and high impact light oil and natural gas.

In March 2006, the company announced a major light sweet oil discovery in the Puskwa area of Alberta. This discovery will be delineated over the next year and while the ultimate size has not yet been determined, it has the potential to make Galleon an intermediate company.

We look forward to reporting to you on the development of this discovery and on associated zones and pools over the course of the year. Let us assure you that the opportunities and growth potential appear to be the greatest in the history of the company. Although growth from the initial public offering of $10 million to $1 billion of market capital in two and one half years is hard to match, the opportunity appears to be at hand.

Today, your company has clear visibility to continue to grow production and reserves per share and to create and deliver significant value. Galleon has a dominant land position, repeatable successful drilling opportunities and control of infrastructure in a portion of the Peace River region. Galleon has access to 840,000 gross acres and plans to drill between 120 and 130 wells in 2006 based on a capital program of $150 million. Credit facilities of $120 million have been established and an equity financing in February 2006 raised $55 million leaving us at the time with approximately $60 million of unused credit lines and working captial, and considerable cash flow.

Your staff remains focused on generating per share value growth and has demonstrated great energy and commitment to this goal. Please refer to the inside back cover of the annual report for a listing of the staff.

The success to date would not be possible without the support of the directors and investors. Thank you for this encouragement and support.

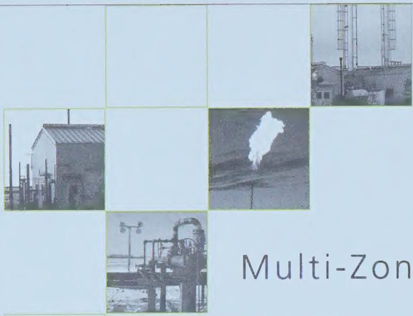
We look forward to seeing you at our Annual Meeting on May 11th, 2006, and would welcome your inquiries at any time.

Glenn R. Carley

Executive Chairman
March 17, 2006

Steve Sugianto

President and Chief Executive Officer



Multi-Zone Gas Project

This project has been the foundation of growth since inception of the company and is expected to continue generating cash to fund other projects while maintaining production and reserve value.

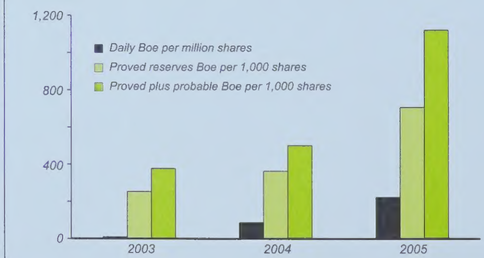
ACHIEVEMENTS IN 2005

- Drilled 41 wells and cased 33 natural gas wells (80% drilling success)
- Completed a significant consolidation acquisition
- Grew the production from 900 to over 2,200 Boe/d

2006 PLAN

- Drilling inventory of 80 locations
- Plan to drill 45 wells
- Potential reserves of 80 to 120 Bcf (unrisked) with potential value between $400 – $600 million (based on 80 successful wells with reserves ranging from 1-1.5 Bcf/well at $5/Mcf)

KEY MEASURES



GROWTH

Tight Gas Project

This new project is expected, due to repeatablility of drilling success, to drive growth in 2006 and beyond with a sizeable land position and life of reserves exceeding 10 years.

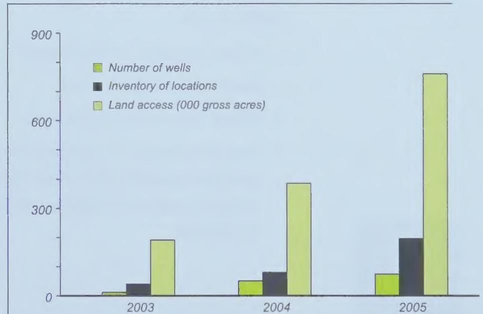
ACHIEVEMENTS IN 2005

- Drilled and cased 10 natural gas wells (100% drilling success)
- Successfully drilled within a 70 mile area with potential to expand to 120 miles
- Increased land access to 181,280 gross acres (283 sections) of undeveloped land
- Grew the production from 0 to approximately 1,050 Boe/d

2006 PLAN

- Drilling inventory of 60 locations
- Plan to drill 46 wells
- Potential to expand development from 1 well per section to 2-4 wells per section
- Potential reserves of 60 to 90 Bcf (unrisked) with potential value between $300 – $450 million (based on 60 successful wells with reserves ranging from 1–1.5 Bcf/well at $5/Mcf)
- Plant expansion from 10 Mmcf/d to 15 Mmcf/d

LAND AND OPPORTUNITIES



DOMINANCE

Light Sweet Oil Project

This new project is expected to deliver growth in production and reserves through waterflood recovery and life of reserves exceeding 7 years. This project is characterized by high netbacks ($50/Bbl Cdn based on $60/Bbl WTI US) and quick project payouts.

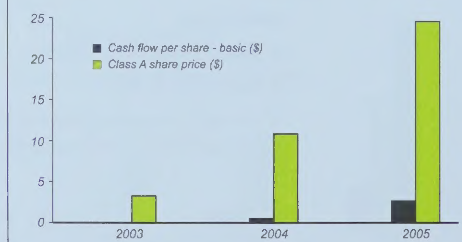
ACHIEVEMENTS IN 2005

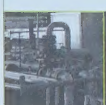
- Drilled and cased 8 light sweet oil wells (100% drilling success)
- Completed significant consolidation acquisition
- Grew the production from 0 to approximately 2,070 Boe/d
- Expansion of crude oil battery from 20,000 Boe/d to 25,000 Boe/d

2006 PLAN

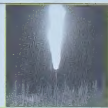
- Drilling inventory of 20 locations
- Plan to drill 10-15 locations
- Explore for new structures/pools
- Potential reserves of 6 Mmboe (unrisked) with potential value of $180 million (based on 17 successful wells with reserves of 350 MBoe/well at $30/Boe)

FINANCIAL





SUCCESS



High Impact Project

This project was identified in fourth quarter 2005 and has the potential to enable the company to grow beyond the junior level. A major light sweet oil discovery was announced in March 2006. Secondary zones encountered natural gas.

2006 PLAN

- Drilling inventory of 38 locations
- Land access to 51,200 gross acres (80 sections) of undeveloped land
- Plan to drill 15-20 locations
- Potential reserves of 24 Mmboe and 96 Bcf (unrisked) having potential value of $1.2 billion (based on 20 successful oil wells with reserves of 1.2 MMBoe/well at $30/Boe and 18 successful gas wells with reserves of 5.3 Bcf/well at $5/Mcf)
- Plan to construct 2 natural gas plants, each with capacity of 10 Mmcf/d
- Plan to construct a crude oil facility with capacity of 10,000 Boe/d

Reserves

The reserves of the Corporation were evaluated by Degolyer and MacNaughton Canada Limited ("DeGolyer") as at December 31, 2005. The reserve evaluation has been approved by the Board of Directors of Galleon. The recovery and reserve estimates of Galleon's reserves are estimates only and there is no guarantee that the estimated reserves will be recovered.

Gross reserves are the total of the Corporation's working interest share before deduction of royalties owned by others. Net reserves are the total of the Corporation's working interest reserves after deducting amounts attributable to royalties owned by others, plus the Corporation's royalty interest reserves.

	Capital expenditures ($MM)	*Proven reserve additions (MMBoe)*	*Proven plus probable reserve additions (MMBoe)*
Exploration & development	106.9	10.3	16.6
Acquisitions	103.5	6.2	9.4
Change in future capital – proven	45.6	–	–
Change in future capital – probable	22.4	–	–
Total	278.4	16.5	26.0

In 2005, the Corporation added 16.5 million Boe proven gross reserves comprised of 10.3 million Boe from exploration and development activities and 6.2 million Boe from acquired reserves.

In 2005, proven plus probable gross reserve additions were 26.0 million Boe; 16.6 million Boe from exploration and development activities and 9.4 million Boe from acquired reserves.

The aggregate of exploration and development costs incurred in the most recent financial year and the change during that year is estimated in estimated future development costs and generally will not reflect total finding and development costs related to reserve additions for that year.

FORECAST PRICE CASE — REMAINING RESERVES AS OF DECEMBER 31, 2005

Reserve category	*Light Oil (Mbbl)*		*Heavy Oil (Mbbl)*		*Sales Gas (MMcf)*		*Natural Gas Liquids (Mbbl)*		*Total (Mboe)*	
	Gross	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*	*Gross*	*Net*
Proved Developed Producing	1,679	1,257	1,915	1,614	29,666	22,791	66	44	8,604	6,713
Proved Developed Non-Producing	31	28	1,318	1,080	21,354	16,041	198	131	5,106	3,913
Proved Undeveloped	101	69	5,374	4,477	8,676	6,925	9	6	6,930	5,706
Total Proved	1,811	1,354	8,607	7,171	59,696	45,757	273	181	20,640	16,332
Probable	871	658	5,597	4,486	33,166	25,785	91	60	12,087	9,502
Total Proved plus Probable	2,682	2,012	14,204	11,657	92,862	71,542	364	241	32,727	25,834

FORECAST PRICE CASE — FUTURE NET REVENUES

Reserve category	*Future Net Revenue Before Income Taxes as of December 31, 2005 ($M)*	*Discounted at:*	
	Undiscounted	*5%*	*10%*
Proved Developed Producing	250,337	220,973	199,799
Proved Developed Non-Producing	130,983	106,195	90,415
Proved Undeveloped	84,788	69,140	56,974
Total Proved	466,108	396,308	347,188
Probable	252,699	192,142	155,237
Total Proved plus Probable	718,807	588,450	502,425

Note: Future Net Revenue does not represent fair market value

Galleon's proved plus probable reserves life index is 10.1 years based on average fourth quarter 2005 production.

At December 31, 2005, the recycle ratio based on proved plus probable reserves including future development capital is 3.1 (4.0 excluding future development capital).

DeGolyer used the following price assumptions in the forecast reserves pricing and costs case as released by DeGolyer effective December 31, 2005.

PRICING ASSUMPTIONS

	WTI Cushing Oklahoma ($U.S./Bbl)	*Edmonton Oil ($Cdn./Bbl)*	*Alberta Spot ($Cdn./Mcf)*
2006	58.00	67.16	10.37
2007	56.38	65.26	9.65
2008	52.53	60.78	8.53
2009	51.69	59.80	7.86
2010	52.72	60.99	7.12
2011	53.78	62.21	6.89

DeGolyer also prepared a reserve evaluation as at December 31, 2005 using constant prices as follows: Edmonton Oil – $64.91/Bbl Cdn; Alberta spot gas $9.27/Mcf; Heavy oil $30.10/Bbl Cdn; Condensate $62.28/Bbl; and NGL $56.51/Bbl.

CONSTANT PRICE CASE — REMAINING RESERVES AS OF DECEMBER 31, 2005

Reserve category	Light Oil (Mbbl)		Heavy Oil (Mbbl)		Sales Gas (MMcf)		Natural Gas Liquids (Mbbl)		Total (Mboe)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Proved Developed Producing	1,683	1,260	1,601	1,334	30,031	22,333	67	45	8,356	6,361
Proved Developed Non-Producing	32	30	1,379	1,128	21,385	15,446	198	131	5,173	3,863
Proved Undeveloped	101	69	5,353	4,458	8,685	6,715	9	6	6,911	5,652
Total Proved	1,816	1,359	8,333	6,920	60,101	44,494	274	182	20,440	15,876
Probable	878	665	5,648	4,540	33,342	25,172	90	60	12,173	9,460
Total Proved plus Probable	2,694	2,024	13,981	11,460	93,443	69,666	364	242	32,613	25,336

CONSTANT PRICE CASE — FUTURE NET REVENUES

Reserve category	Future Net Revenues Before Income Taxes at December 31, 2005 ($M)		
		Discounted at:	
	Undiscounted	5%	10%
Proved Developed Producing	252,345	217,564	193,429
Proved Developed Non-Producing	129,497	103,197	86,248
Proved Undeveloped	62,634	48,942	38,662
Total Proved	444,476	369,703	318,339
Probable	253,448	187,340	147,562
Total Proved plus Probable	697,924	557,043	465,901

Note: Future Net Revenue does not represent fair market value

The Corporation's undeveloped land was valued at $39.9 million at November 15, 2005 by Seaton-Jordan & Associates Ltd.

The fair value was determined based on acquisition costs, recent sales by others of interests in the same unproved property, recent farm-in agreement terms, conditions and committments, and recent sales of similar properties in the same general area.

The evaluation gave no value for ongoing option rights to third party land. The Corporation's undeveloped landholdings at November 15, 2005 were as follows:

	Undeveloped Acres	
	Gross	Net
Alberta	426,210	313,753
British Columbia	16,773	12,436
Saskatchewan	31,575	28,503
	474,558	**354,692**

Management's Discussion and Analysis

Management's Discussion & Analysis ("MD&A") is intended to assist in the understanding of the trends and significant changes in the financial condition and results of operations of Galleon Energy Inc. ("Galleon") or the "Corporation" for the year 2005. The MD&A has been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the audited financial statements for year ended December 31, 2005.

Petroleum and natural gas reserves and volumes are converted to a common unit of measure on a basis of six thousand cubic feet (Mcf) of gas to one barrel (Bbl) of oil. BOEs may be misleading, particularly if used in isolation. The forgoing conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Amounts are shown in Canadian dollars unless otherwise stated.

This MD&A is based on information available as of, and is dated, March 17, 2006. Additional information relating to Galleon, including its annual information form, when filed, is available at SEDAR at www.sedar.com.

Non-GAAP Measurements

The MD&A contains the terms "cash flow" and "funds from operations" which should not be considered an alternative to, or more meaningful than, cash flow from operating activities or net earnings (loss) as determined in accordance with Canadian GAAP as an indicator of Galleon's performance. Galleon's determination of cash flow may not be comparable to that reported by other companies. The reconciliation between net earnings (loss) and funds from operations can be found in the Statements of Cash Flow. The Corporation also presents "cash flow per share" whereby funds from operations is divided by the weighted average number of shares outstanding to determine per share amounts.

Galleon uses the term net debt in the MD&A and presents a table showing how it has been determined. This measure does not have any standardized meaning prescribed by Canadian GAAP and therefore may not be comparable to similar measures presented by other companies.

Forward Looking Statements

Statements that are not historical facts may be considered forward looking statements including management's assessment of future plans and operations, expected commodity prices, expected or estimated royalty rates, transportation costs, operating costs, general administrative expenses and other costs and expenses, estimated third party processing fees, drilling plans, capital expenditures, timing of capital expenditures and the method of funding thereof. These forward looking statements sometimes include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Corporation's objectives, goals or future plans are forward looking statements. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties including, without limitation, risks associated with oil and gas exploration, development, exploitation, production, marketing and transportation, loss of markets, volatility of commodity prices, currency fluctuations, imprecision of reserve estimates, environmental risks, competition from other producers, inability to retain drilling rigs and other services, incorrect assessment of the value of acquisitions, failure to realize the anticipated benefits of acquisitions, delays resulting from or inability to obtain required regulatory approvals and ability to access sufficient capital from internal and external sources. As a consequence, Galleon's actual results may differ materially from those expressed in, or implied by, the forward-looking statements. Readers are cautioned that the foregoing list of factors is not exhausted. Additional information on these and other factors that could effect Galleon's operations and financial results are included elsewhere herein and in reports on file with Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or at Galleon's website (www.galleonenergy.com). Furthermore, the forward looking statements contained herein are made as at the date hereof and Galleon does not undertake any obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

2005 Highlights

- Funds from operations of $78.1 million
- Earnings of $19.6 million
- Average daily production of 6,539 Boe; natural gas – 24.3 Mmcf and crude oil and NGLs – 2,488 Bbl
- Drilling of 74 gross wells resulting in 49 gross (39.5 net) natural gas wells and 16 gross (14.5 net) oil wells; a success rate of 88%
- Capital expenditures of $106.9 million plus property acquisitions of $103.5 million
- Three share equity issuances for gross proceeds of $102.9 million and the issuance of 9.6 million Class A shares
- Increase in the bank credit facility to $100 million

2005 will be noted as a year of expansion, consolidation and dominance in the Peace River Arch area of Alberta. The Corporation grew proven reserves year over year by 214% and production by 156% on a per share basis fourth quarter 2005 over fourth quarter 2004; expanded from one multi-zone gas project to four multi-year, multi-zone projects; acquired properties and land in the Dawson area — resulting in consolidation of existing assets, additional control of infrastructure and increase of drilling opportunities; and acquired properties in the Edam area of Saskatchewan resulting in significant additional value in reserves and immediate incremental production. The Corporation is a dominant land holder, operator and owner of facilities in a portion of the Peace River region.

The 2005 drilling program consisted of drilling 74 wells resulting in 65 successful wells (49 natural gas wells and 16 oil wells) and one service well. Production reached 9,000 Boe/d at the end of 2005. Approximately 56% of this production was added through the drilling program.

The drilling program targeted light sweet oil and natural gas in 2005. Some of the key wells drilled were at Normandville, Puskwa and Eaglesham, all located in the Peace River area of Alberta.

By the end of 2005, Galleon had assembled, through strategic farm in agreements, crown land sales and property acquisitions, access to over 760,000 gross acres (1,188 sections) of land. The technical team has generated an inventory of over 195 locations.

Petroleum and natural gas revenues were $382,217 in 2003, $22,281,941 in 2004 and $135,049,962 in 2005. The Corporation incurred losses of $236,486 in 2003 ($0.06 per basic and diluted share) and $167,883 ($0.01 per basic and diluted share) in 2004. Earnings of $19,620,300 ($0.67 per basic share and $0.63 per diluted share) were recorded in 2005.

Total assets of the Corporation grew from $15,727,097 in 2003 to $160,892,258 in 2004 and to $352,618,764 in 2005.

Petroleum and natural gas revenues

The Corporation acquired properties in the Dawson area of Alberta in May 2005. A portion of these properties and lands were subject to a farm in agreement which the Corporation signed in 2003. Heavy oil properties in Edam, Saskatchewan were acquired in May 2005. Through optimization of facilities, recompletions and the drilling of five wells, the Corporation was able to increase production at Edam from approximately 400 Bbl/d to 1,200 Bbl/d at the end of 2005.

By comparison, in 2004, the Corporation acquired natural gas properties in Wymark, Saskatchewan, in Alberta at Bindloss, Princess and Puskwa and in B.C. at Two Rivers and Flatrock. In December 2004, the Corporation acquired natural gas and oil properties in the Dawson, Alberta area.

	2005 $	2005 2,386,759 Boe $/Boe	2004 $	2004 578,619 Boe $/Boe
Gross revenues	135,049,962	56.58	22,281,941	38.51
Hedge cost	–	–	(629,491)	(1.09)
Royalties, net of ARTC & GCA	(29,805,370)	(12.49)	(4,573,362)	(7.90)
	105,244,592	44.09	17,079,088	29.52
Transportation costs	(3,601,106)	(1.51)	(859,344)	(1.49)
Operating costs	(15,804,878)	(6.62)	(3,423,506)	(5.92)
	85,838,608	35.96	12,796,238	22.11
Other revenue	25,902	0.01	27,391	0.05
G&A	(4,438,274)	(1.86)	(1,968,069)	(3.40)
Interest	(2,388,842)	(1.00)	(338,681)	(0.59)
Capital and other taxes	(957,936)	(0.40)	(289,467)	(0.50)
Funds from operations	78,079,458	32.71	10,227,412	17.67

In 2005, funds from operations on a per unit basis improved by 85% over 2004 due to a 49% increase in revenues net of royalties and a 45% decrease in G&A. These per unit improvements were slightly offset by a 12% increase in operating costs and a 69% increase in interest expense.

	Q4 2005 $	Q4 2005 816,420 Boe $/Boe	Q4 2004 $	Q4 2004 213,762 Boe $/Boe
Gross revenues	51,989,353	63.68	8,530,848	39.91
Hedge cost	–	–	(167,289)	(0.78)
Royalties, net of ARTC & GCA	(12,254,361)	(15.01)	(1,780,386)	(8.33)
	39,734,992	48.67	6,583,173	30.80
Transportation costs	(1,205,808)	(1.48)	(375,407)	(1.76)
Operating costs	(6,311,089)	(7.73)	(1,266,631)	(5.93)
	32,218,095	39.46	4,941,135	23.11
Other revenue	604	–	8,604	0.04
G&A	(1,488,789)	(1.82)	(626,502)	(2.93)
Interest	(742,346)	(0.91)	(267,156)	(1.25)
Capital and other taxes	(325,890)	(0.40)	(168,166)	(0.79)
Funds from operations	29,661,674	36.33	3,887,915	18.18

In 2005, gross natural gas revenues increased by 397% from 2004. This growth was generated as to 89% from volumes and 11% from prices.

Year over year, crude oil revenues increased by 800%. This significant growth was fuelled as to 93% from volumes and 7% from prices.

REVENUE CONTRIBUTION ANALYSIS

	2005		2004	
	$	%	$	%
Natural gas	81,252,154	60	16,360,898	73
Oil	51,949,946	38	5,770,913	26
NGLs	1,158,899	1	144,211	1
Royalty income	688,963	1	5,919	–
Gross revenues	135,049,962	100	22,281,941	100

REVENUE CONTRIBUTION ANALYSIS

	Q4 2005		Q4 2004	
	$	%	$	%
Natural gas	33,546,051	64	6,202,804	73
Oil	17,562,134	34	2,242,560	26
NGLs	536,705	1	79,788	1
Royalty income	344,463	1	5,696	–
Gross revenues	51,989,353	100	8,530,848	100

Natural gas comprised 60% of total revenues and 62% of total volumes in 2005. This compares to 73% of total revenues and total volumes in 2004.

Oil comprised 38% of total revenues and 37% of total volumes in 2005.

This compares to 26% of total revenues and total volumes in 2004.

NGL revenues and volumes have remained at 1% of total revenues and total volumes on a year over year basis.

PRODUCT MIX ANALYSIS

		2005 %		2004 %
Natural gas (Mcf/d)	24,302	62	6,959	73
Oil (Bbls/d)	2,431	37	412	26
NGLs (Bbls/d)	57	1	9	1
Boe/d (6:1)	6,539	100	1,581	100

Average daily volumes grew by 314% in 2005 which is comprised of a 249% increase in natural gas volumes, a 490% increase in oil volumes and a 533% increase in NGL volumes.

PRODUCT MIX ANALYSIS

		Q4 2005 %		Q4 2004 %
Natural gas (Mcf/d)	32,212	61	10,343	74
Oil (Bbls/d)	3,406	38	578	25
NGLs (Bbls/d)	99	1	21	1
Boe/d (6:1)	8,874	100	2,324	100

The 2006 budget contains an estimated 59% of revenues and 63% of volumes to be generated from natural gas properties and 32% of revenues and 26% of volumes to be generated from light oil properties.

The 2006 drilling program will target both natural gas and light sweet oil additions.

Commodity pricing and marketing

Petroleum products are sold to major Canadian marketers at spot reference prices based on US WTI for crude oil and AECO spot for natural gas.

The 2005 benchmark WTI oil price was $56.61 US. Based on this average, the Corporation realized prices, after deducting clean oil transportation costs, of $68.32/Bbl Cdn for light oil and $34.24/Bbl Cdn for heavy/medium oil.

Crude oil differentials continued to widen in the fourth quarter of 2005. Approximately 32% of the Corporation's oil sales were classified as heavy/medium crude.

In 2006, light oil sales are expected to comprise 81% of total oil sales. The 2006 budget contains an estimated $60.00 US WTI price.

The Corporation had two hedge contracts in place during 2004. The cost of the crude oil hedge contracts was $629,491 in 2004 or $4.18/Bbl based on total crude oil sold in the year. No hedge contracts were in place in 2005.

Natural gas prices, net of transportation costs, averaged $8.95/Mcf in 2005 compared to $6.13/Mcf in 2004. The 2006 budget contains a forecast price of $8.00/Mcf.

PRICES (NET OF TRANSPORTATION)

	2005	2004	% change
Natural gas ($/Mcf)	8.95	6.13	46
Light oil ($/Bbl)	68.32	51.06	34
Heavy/medium oil ($/Bbl)	34.24	30.56	12
Hedge impact ($/Bbl)	–	(4.18)	–
Net crude oil ($/Bbl)	57.27	33.39	72
NGLs ($/Bbl)	55.41	42.98	29

PRICES (NET OF TRANSPORTATION)

	Q4 2005	Q4 2004	% change
Natural gas ($/Mcf)	11.16	6.15	81
Light oil ($/Bbl)	67.44	51.18	32
Heavy/medium oil ($/Bbl)	29.31	28.98	1
Hedge impact ($/Bbl)	–	(3.14)	–
Net crude oil ($/Bbl)	54.73	38.49	42
NGLs ($/Bbl)	58.84	40.36	46

PERFORMANCE BY PROPERTY

	Boe/day	Production %	Q4 2005 Operating netbacks/Boe $	Boe/day	Production %	2005 Operating netbacks/Boe $	2005 Operating cash flow %
Dawson	5,749	65	42.37	4,323	66	39.25	75
Calais	1,398	16	39.62	815	13	33.28	12
Wymark	178	2	49.83	205	3	36.14	3
Flatrock/Two Rivers	262	3	42.39	254	4	30.38	3
Edam/Lloydminster	1,036	12	4.11	683	10	10.08	3
Other	251	2	34.22	259	4	25.25	4
	8,874	100	37.38	6,539	100	34.46	100

Note: netbacks by property exclude ARTC, GCA and hedge costs and are calculated by subtracting royalities and operating costs from revenues.

Dawson and Calais are located in the Peace River area of Alberta. Production can be sourced from multi-zones. The premium quality products from these zones are light sweet oil and natural gas with liquids. In 2005, production from the Dawson properties exceeded 66% of total production with Calais making up an additional 13%. Operating cash flow was generated 75% from the Dawson properties and 12% from the Calais properties. This compares to 27% from Dawson and 20% from Calais in 2004.

			Q4 2004			2004	2004
		Production	Operating netbacks/Boe		Production	Operating netbacks/Boe	Operating cash flow
	Boe/day	%	$	Boe/day	%	$	%
Dawson	903	39	25.17	409	26	23.30	27
Calais	389	17	22.49	288	18	24.21	20
Wymark	257	11	25.19	280	18	26.01	21
Flatrock/Two Rivers	328	14	21.86	139	9	22.13	9
Lloydminster	97	4	7.54	137	9	11.97	4
Other	350	15	22.93	328	20	20.79	19
	2,324	100	23.19	1,581	100	22.34	100

Note: netbacks by property exclude ARTC, GCA and hedge costs and are calculated by subtracting royalties and operating costs from revenues.

Royalties

Royalty expenses were 24.7% of gross revenues (23.1% crown, 0.5% freehold and 1.1% other) for 2005 compared to 22.8% (18.7% crown, 2.8% freehold and 1.3% other) for 2004. ARTC of $500,000 was recorded in each of 2005 and 2004. Gas cost allowance ("GCA") of $3.1 million was claimed in 2005 of which $128,867 was for GCA related to 2004.

In fourth quarter 2005, natural gas prices averaged $11.16/Mcf. The Alberta reference price is used in calculating gas crown royalties. This can result in a higher royalty rate as a percentage of actual revenues received in certain months. For example, in November 2005, the Alberta reference price used to calculate crown royalties was $10.85/GJ compared to average natural gas prices realized of $8.95/Mcf.

A substantial portion of the Corporation's properties are located on crown land. Crown royalties have increased to 93% of total royalties in 2005 compared to 82% in 2004.

Other royalties include GORR which relates primarily to encumbrances from farm in agreements. In 2005, other royalties of $1,485,218 were paid compared to $298,388 in 2004, an increase of 398%.

The 2006 budget contains an estimated royalty rate of 23.8% including available ARTC and GCA.

	2005 $	2005 %	2004 $	2004 %
Crown	31,179,837	93	4,146,430	82
Freehold	720,768	2	628,544	12
Other	1,485,218	5	298,388	6
	33,385,823	100	5,073,362	100
ARTC and GCA	(3,580,453)		(500,000)	
Net royalties	29,805,370		4,573,362	
% of gross revenues	24.7		22.8	
% of gross revenues net of ARTC and GCA	22.1		20.5	

	Q4 2005 $	Q4 2005 %	Q4 2004 $	Q4 2004 %
Crown	13,056,720	94	1,739,805	90
Freehold	205,034	1	93,534	5
Other	687,383	5	99,047	5
	13,949,137	100	1,932,386	100
ARTC and GCA	(1,694,776)		(152,000)	
Net royalties	12,254,361		1,780,386	
% of gross revenues	26.8		22.7	
% of gross revenues net of ARTC and GCA	23.6		20.9	

Operating expenses

Operating expenses averaged $7.73/Boe in fourth quarter 2005 and $6.62/Boe in 2005. Operating expenses averaged $5.93/Boe in fourth quarter 2004 and $5.92/Boe in 2004. The Corporation has experienced an increase of between 10-20% in the cost of goods and services during 2005. Third party processing revenues were $3.0 million in 2005 ($248,891 – 2004). This amount has been deducted from operating expenses.

In the two core properties of Dawson and Calais, operating costs averaged $5.83/Boe and $5.39/Boe respectively during fourth quarter 2005.

In 2006, the Corporation has estimated operating costs will average between $6.50 and $7.00/Boe. Third party processing fees are expected to be approximately $2.0 million in 2006.

General and administration costs

Gross 2005 G&A costs by category include: salary and employee – 49%, audit, engineering and legal – 14%, office – 13%, consulting – 10%, corporate – 10%, and computer – 4%. During the year, the Corporation relocated to larger office space and added 7 employees. In 2005, two independent reserve evaluation reports were prepared for a cost of $446,000. In aggregate, bonuses of $760,000 were paid in 2005 to head office staff and field contractors. Gross 2004 G&A costs by category include: salary and employee – 54%, office – 16%, audit, engineering and legal – 10%, consulting – 9%, corporate – 7%, and computer – 4%.

Recoveries credited to operations were $400,531 and to capital were $1,334,386 in 2005 compared to $194,338 and $629,409 respectively in 2004. The significant increase in recoveries year over year is directly related to the growth in operations and the capital program in 2005. An amount of $469,000 was capitalized in 2005 (2004 - $219,000) for exploration salaries.

	2005		2004	
	$	*$/Boe*	*$*	*$/Boe*
Gross	6,173,191	2.59	2,791,816	4.82
Overhead recoveries	(1,734,917)	(0.73)	(823,747)	(1.42)
	4,438,274	1.86	1,968,069	3.40

	Q4 2005		Q4 2004	
	$	*$/Boe*	*$*	*$/Boe*
Gross	2,155,649	2.64	946,503	4.43
Overhead recoveries	(666,860)	(0.82)	(320,001)	(1.50)
	1,488,789	1.82	626,502	2.93

Based on budget volumes of 10,775 Boe/d, G&A costs are expected to average $1.80/Boe gross and $1.34/Boe net in 2006.

Interest

Interest expense was $742,346 in fourth quarter 2005 ($267,156 – 2004). 2005 interest expense was $2,388,842 ($338,681 – 2004). These costs were incurred primarily from interest on bank credit facilities. Bank debt has increased to $75.3 million at December 31, 2005 from $48.4 million at December 31, 2004.

Depletion and depreciation

Corporate reserves in 2005 have been evaluated by an independent engineering evaluator.

Depletion and depreciation rates for oil and gas properties were $16.34/Boe in fourth quarter 2005 compared to $20.00/Boe in fourth quarter 2004. This rate reduction reflects the improvement in finding and development costs in both acquired and drilled reserves. The lower rate also shows the effectiveness of the capital program despite increasing costs for goods and services.

In 2005, capital expenditures of $33.1 million related to undeveloped land and seismic costs have been excluded from the depletion and depreciation calculation and $52.9 million of future costs have been added.

In 2004, capital expenditures of $17.4 million related to undeveloped land and seismic costs have been excluded from the depletion and depreciation calculation and $7.4 million of future costs have been added.

The total depletion and depreciation for the fourth quarter 2005 was $13,338,656 ($4,276,286 – 2004) and $40,920,397 in the year ended December 31, 2005 ($8,581,908 – 2004). In addition, accretion expense of $132,522 ($34,653 – 2004) was recorded in fourth quarter 2005 and $362,612 ($104,681 – 2004) for the year 2005.

Taxes

FUTURE INCOME TAX

	$
Balance at December 31, 2004	6,660,997
Tax effect of flow through shares	8,750,000
Tax effect of share issue costs	(2,243,180)
Provision for 2005	13,226,265
Balance at December 31, 2005	**26,394,082**

A future tax provision of $13,226,265 was recorded in 2005 ($579,662 - 2004). Large corporation taxes of $957,936 were recorded in 2005 ($289,467 - 2004).

Tax pools at December 31, 2005 are estimated to be as follows: CEE – $1.5 million; CDE – $27.8 million; COGPE – $130.2 million and UCC – $59.4 million.

Net earnings

Net earnings of $9,323,884 were recorded in fourth quarter 2005 (2004 – loss of $1,057,925) and $19,620,300 in the year ended December 31, 2005 (2004 – loss of $167,883). Strong commodity prices, production volume growth and low finding and development costs translated into 2005 earnings being equal to 25% of funds provided from operations.

A future tax provision of $13,226,265 (2004 – $579,662) and non cash expenses for stock-based compensation of $3,949,884 (2004 – $1,129,044) were charged to earnings in 2005.

Capital expenditures

	$
Property & equipment balance at December 31, 2004	140,882,566
Additions (net)	106,928,835
Acquisition of property and equipment	103,461,542
Additions to asset retirement obligation	6,824,950
Depletion and depreciation	(40,920,397)
Property & equipment balance at December 31, 2005	**317,177,496**

Acquisitions in 2005 included $91.4 million at Dawson, $7.5 million at Edam and $4.6 million for two minor land acquisitions in the Dawson area.

EXPLORATION AND DEVELOPMENT EXPENDITURES

		2005
	$	%
Land	5,734,894	5
Geological and geophysical	11,881,666	11
Drilling and completion	57,747,541	54
Plant and facilities	31,189,494	29
Other assets	375,240	1
Total exploration and development	106,928,835	100

During 2005, the Corporation purchased land at crown land sales including $3.7 million at Dawson, $0.6 million at Edam and $0.4 million at Calais. Key seismic programs were shot in the Calais area – $4.5 million; Normandville – $2.7 million; Puskwa – $1.1 million and in the Dawson area – $0.8 million.

2005 WELLS DRILLED

	Gas (net)	Oil (net)	Other (net)	D&A(net)	Total (net)
Calais	15 (9.5)	3 (2.2)	–	5 (5.0)	23 (16.7)
Dawson	28 (26.6)	8 (7.3)	-	3 (2.4)	39 (36.3)
Edam	–	5 (5.0)	1 (1.0)	–	6 (6.0)
Two Rivers	3 (2.5)	–	–	–	3 (2.5)
Other	3 (0.9)	–	–	–	3 (0.9)
	49 (39.5)	16 (14.5)	1 (1.0)	8 (7.4)	74 (62.4)

In 2005, 53% of the wells drilled were located in the Dawson area. The 2006 drilling program will focus on Dawson – tight gas, light sweet oil and multi-zone gas and on Calais – high impact light sweet oil and gas.

Liquidity and Capital Resources and Subsequent Events

During 2005, funds provided from operations of $78.1 million, equity issuances, net of issue costs, of $97.5 million and an increase in working capital and bank credit facilities were used to fund the $210.4 million capital expenditure program and the Dawson and Edam property acquisitions. Cash flow from operations per weighted average basic share was $0.93 in fourth quarter 2005 and $2.67 in 2005.

DEBT AND WORKING CAPITAL

	December 31, 2005 $	December 31 2004 $
Bank debt	**(75,301,382)**	(48,406,688)
Working capital (deficiency)	**(17,374,850)**	(9,413,293)
Total net debt	**92,676,232**	57,819,981

SOURCE OF FUNDS

	Q4 2005 $	2005 $
Issuance of shares, net of costs	**575,468**	97,454,669
Funds from operations	**29,661,674**	78,079,458
Bank debt	**4,056,318**	26,894,694
Change in cash and working capital	**15,533,878**	7,961,556
Net additions to property and equipment	**49,827,338**	210,390,377

On February 10, 2005, the Corporation issued 4,225,355 Class A shares at $10.65 per share for gross proceeds of $45 million. The shares issued were subject to a hold period under applicable securities laws which expired on June 11, 2005.

On May 12, 2005 the Corporation issued 3,794,000 subscription receipts at $10.00 each for gross proceeds of $37,940,000. Each subscription receipt entitled the holder to acquire one Class A share, without the payment of any additional consideration, upon the closing of the acquisition of properties at Dawson, Alberta. Proceeds from the issuance of the subscription receipts were placed in escrow and were released at the closing of the acquisition on May 18, 2005. The shares issued were subject to a hold period under applicable securities laws which expired on September 13, 2005.

On May 12, 2005, the Corporation issued 1,600,000 Class A shares on a flow through basis at $12.50 each for gross proceeds of $20 million. The shares issued were subject to a hold period under applicable securities laws which expired on September 13, 2005. Under the look back provision governing flow-through shares, the Corporation is required to incur these eligible expenditures prior to December 31, 2006.

On February 14, 2006, the Corporation issued 2,270,000 Class A shares at $24.25 each for gross proceeds of $55 million. The shares issued are subject to a hold period under applicable securities laws expiring June 15, 2006.

The 2006 capital expenditure program is expected to reach $150 million. Cash flow, the 2006 equity issuance and available bank facilities are expected to be sufficient to fund this program.

On December 31, 2005, the market value of Galleon's Class A shares was approximately $780 million based on the December 31, 2005 closing price of $24.50 per share and 31,826,876 Class A shares outstanding. On December 31, 2005, there were 922,500 Class B shares outstanding and the closing price was $8.25 per share.

The Corporation has an extendible revolving credit facility in place with a Canadian chartered bank. The amount of the facility is $100 million Cdn with interest rates based on the bank's prime rate. In addition, the Corporation has in place a $3.5 million US swap facility. Collateral for the facilities consists of a demand debenture for $150 million secured by a first floating charge over all of the property and equipment of the Corporation. At December 31, 2005, $75,301,382 was drawn on the credit facilities. On January 17, 2006, the syndicated credit facilities were expanded to $120 million with collateral increasing to $300 million.

Galleon has no off-balance sheet financing arrangements. The Corporation has lease arrangements for office space to July 31, 2008. The future minimum lease payments total $1,209,080.

At March 17, 2006, 34,238,210 Class A shares, 922,500 Class B shares and 3,191,250 options were outstanding.

Critical Accounting Estimates

There are a number of critical estimates underlying the accounting policies employed in preparing the Financial Statements.

REVENUE ESTIMATES

Payment for sales in the oil and gas industry occurs up to two months after the month of production. Sales are estimated based upon information received from field offices regarding production levels and published industry pricing and transportation data.

COST ESTIMATES

Costs for services performed but not yet billed are estimated based on original quotes and historical cost information.

RESERVES

The full cost method of accounting, which is used to account for oil and gas activities, relies on estimates of proven reserves that will ultimately be recoverable from the properties. These estimates are utilized in calculating the unit-of-production depletion, potential impairment of asset carrying costs and future site restoration expense. The process of estimating reserves is complex and requires significant judgment, based on available geological, geophysical, engineering and economic data.

Reserves are evaluated at year-end by an independent engineering firm and quarterly updates to those reserves, as well as new reserves from wells drilled in the current year are estimated by the Corporation's engineers.

Although every effort is made to ensure that critical estimates are accurate, changing economic and operational conditions, as well as governmental regulations, can significantly affect those estimates, which may cause significant fluctuation in earnings and cash flows.

Business Risks

Galleon is engaged in the exploration, development and production of crude oil and natural gas. The oil and gas business is inherently risky and there is no assurance that hydrocarbon reserves will be discovered and economically produced. Operational risks include competition, reservoir performance uncertainties, environmental factors, and regulatory, environment and safety concerns. Financial risks associated with the petroleum industry include fluctuations in commodity prices, interest rates, currency exchange rates and the cost of goods and services.

Galleon employs highly qualified people, uses sound operating and business practices, and evaluates all potential and existing wells using the latest applicable technology. Galleon complies with government regulations and has in place an up-to-date emergency response test. Environment and safety policies and standards are adhered to. Asset retirement obligations are recognized upon acquisition, construction, development and/or normal use of the assets. Galleon maintains property and liability insurance coverage. The coverage provides a reasonable amount of protection from risk of loss; however, not all risks are foreseeable or insurable.

A commodity hedging program was put in place to protect product pricing on 200 Boe/d of production in 2004. The Corporation does not have any active hedge contracts.

Disclosure controls and procedures

Galleon has established disclosure controls and procedures to ensure the timely and accurate preparation of financial and other reports. Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to the appropriate members of management and properly reflected in Galleon's filings. The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) oversee this evaluation process and have concluded that at the end of the period covered by Galleon's annual filings, the design and operation of these disclosure controls and procedures are adequate and effective in ensuring that the information required to be disclosed under applicable Securities laws is accurate and complete and filed within the time periods required. It should be noted that while the Corporation's CEO and CFO believe that the Corporation's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

Outlook

During 2005, the Corporation's opportunity portfolio expanded to include four multi-zone, multi-year projects being multi-zone gas, tight gas, light sweet oil and high impact light oil and natural gas.

In March 2006, a major light sweet oil discovery was announced by Galleon in the Puskwa area of Alberta. This discovery will be delineated over the next year and while the ultimate size has not yet been determined, it has the potential to make Galleon an intermediate company. The development of this discovery and on associated zones and pools will be reported over the course of the year.

Today, the Corporation has clear visibility to continue to grow production and reserves per share and to create and deliver significant value. Galleon has a dominant land position, repeatable successful drilling opportunities and control of infrastructure in a portion of the Peace River region. Galleon has access to 840,000 gross acres and plans to drill between 120 and 130 wells in 2006 based on a capital program of $150 million. Credit facilities of $120 million have been established and an equity financing in February 2006 raised $55 million leaving, at the time, approximately $60 million of unused credit lines and working capital, and considerable cash flow.

Highlights – 2005

	4th Qtr 2005	*3rd Qtr 2005*	*2nd Qtr 2005*	*1st Qtr 2005*
Production				
Light oil (Bbl/d)	2,271	2,213	1,393	670
Heavy/medium oil (Bbl/d)	1,135	1,205	594	206
Natural Gas (Mcf/d)	32,212	27,452	21,813	15,511
Liquids (Bbl/d)	99	71	21	37
Boe/d at 6:1 gas	8,874	8,064	5,643	3,499
Total Boe produced	816,420	741,917	513,535	314,887
Daily Boe of production per million Class A shares	279	254	195	144
Prices (net of transportation)				
Light oil ($/Bbl)	67.44	73.64	65.35	59.72
Heavy/medium oil ($/Bbl)	29.31	48.19	32.21	26.45
Crude oil ($/Bbl)	54.73	62.54	54.86	51.91
Natural Gas ($/Mcf)	11.16	9.13	6.99	6.51
NGLs ($/Bbl)	58.84	56.64	53.94	44.75
Per Boe ($)				
Gross revenues	63.68	59.99	48.18	43.86
Royalties, net of ARTC and GCA	(15.01)	(11.69)	(11.11)	(10.08)
Transportation costs	(1.48)	(1.64)	(1.37)	(1.51)
Operating costs	(7.73)	(6.98)	(5.31)	(5.04)
	39.46	39.68	30.39	27.23
Other revenue	–	–	0.03	0.02
G&A	(1.82)	(1.58)	(2.01)	(2.38)
Interest – cash	(0.91)	(0.90)	(1.09)	(1.33)
Capital tax – cash	(0.40)	(0.38)	(0.49)	(0.32)
Funds from operations	36.33	36.82	26.83	23.22

Highlights – 2004

	4th Qtr 2004	*3rd Qtr 2004*	*2nd Qtr 2004*	*1st Qtr 2004*
Production				
Light oil (Bbl/d)	329	92	84	56
Heavy/medium oil (Bbl/d)	249	297	274	265
Natural Gas (Mcf/d)	10,343	8,272	6,328	2,841
Liquids (Bbl/d)	21	13	1	1
Boe/d at 6:1 gas	2,324	1,781	1,414	796
Total Boe produced	213,762	163,812	128,667	72,378
Daily Boe of production per million Class A shares	109	90	83	55
Prices (net of transportation)				
Light oil ($/Bbl)	51.18	55.69	49.40	45.26
Heavy/medium oil ($/Bbl)	28.98	35.30	29.70	27.56
Crude oil with hedge ($/Bbl)	38.49	35.87	28.57	26.48
Natural Gas ($/Mcf)	6.15	5.83	6.67	5.71
NGLs ($/Bbl)	40.36	47.92	34.78	42.88
Per Boe ($)				
Gross revenues (net of hedges)	39.13	36.86	38.09	32.15
Royalties, net of ARTC and GCA	(8.33)	(7.79)	(8.10)	(6.56)
Transportation costs	(1.76)	(1.59)	(0.99)	(1.02)
Operating costs	(5.93)	(5.77)	(5.43)	(7.08)
	23.11	21.71	23.57	17.49
Other revenue	0.04	0.03	0.03	0.13
G&A	(2.93)	(2.96)	(4.07)	(4.61)
Interest – cash	(1.25)	(0.18)	(0.28)	(0.07)
Capital tax – cash	(0.79)	(0.28)	(0.58)	–
Funds from operations	18.18	18.32	18.67	12.94

Highlights – 2005

	4th Qtr 2005	3rd Qtr 2005	2nd Qtr 2005	1st Qtr 2005
Financial ($)				
Gross revenues	51,989,353	44,505,716	24,742,760	13,812,133
Royalties, net of ARTC & GCA	(12,254,361)	(8,672,657)	(5,704,783)	(3,173,569)
Transportation costs	(1,205,808)	(1,214,249)	(706,374)	(474,675)
Operating costs	(6,311,089)	(5,178,675)	(2,726,825)	(1,588,289)
Other revenue	604	2,926	16,619	5,753
G&A	(1,488,789)	(1,170,638)	(1,030,455)	(748,392)
Interest – cash	(742,346)	(668,167)	(558,040)	(420,289)
Current tax – cash	(325,890)	(279,756)	(251,013)	(101,277)
Funds from operations	29,661,674	27,324,500	13,781,889	7,311,395
Depletion, depreciation & accretion	(13,471,178)	(12,234,184)	(9,708,120)	(5,869,527)
Future tax expense	(5,930,290)	(4,978,896)	(1,715,040)	(602,039)
Stock-based compensation	(936,322)	(998,964)	(1,669,417)	(345,181)
Earnings	9,323,884	9,112,456	689,312	494,648
Total assets	352,618,764	312,523,346	290,882,760	180,363,456
Long term financial liabilities	–	–	–	–
Weighted average outstanding Class A shares-basic	31,798,704	31,760,413	28,978,045	24,373,524
Cash flow $ per share – basic	0.93	0.86	0.48	0.30
Earnings $ per share – basic	0.29	0.29	0.02	0.02
Weighted average outstanding Class A shares – diluted	33,733,188	33,512,560	30,316,077	25,381,407
Cash flow $ per share – diluted	0.88	0.82	0.45	0.29
Earnings $ per share – diluted	0.28	0.27	0.02	0.02

Highlights – 2004

	4th Qtr 2004	3rd Qtr 2004	2nd Qtr 2004	1st Qtr 2004
Financial ($)				
Gross revenues (net of hedges)	8,363,559	6,037,730	4,924,425	2,326,736
Royalties, net of ARTC & GCA	(1,780,386)	(1,275,588)	(1,042,773)	(474,615)
Transportation costs	(375,407)	(259,648)	(150,702)	(73,587)
Operating costs	(1,266,631)	(945,635)	(699,145)	(512,095)
Other revenue	8,604	4,708	4,706	9,373
G&A	(626,502)	(484,804)	(523,263)	(333,500)
Interest – cash	(267,156)	(30,245)	(35,681)	(5,599)
Current tax – cash	(168,166)	(46,190)	(75,111)	–
Funds from (used in) operations	3,887,915	3,000,328	2,402,456	936,713
Depletion, depreciation & accretion	(4,310,939)	(2,276,487)	(1,335,956)	(763,207)
Future tax (expense) recovery	96,896	(229,437)	(484,515)	37,394
Stock-based compensation	(731,797)	(187,289)	(122,238)	(87,720)
Earnings (loss)	(1,057,925)	307,115	459,747	123,180
Total assets	160,892,258	90,698,030	60,289,729	47,029,699
Long term financial liabilities	–	–	–	–
Weighted average outstanding Class A shares – basic	21,291,804	19,733,778	17,607,394	14,580,107
Cash flow $ per share – basic	0.18	0.15	0.14	0.06
Earnings (loss) $ per share – basic	(0.05)	0.02	0.03	0.01
Weighted average outstanding Class A shares – diluted	22,463,609	20,788,121	18,554,786	15,399,375
Cash flow $ per share – diluted	0.17	0.14	0.13	0.06
Earnings (loss) $ per share – diluted	(0.05)	0.01	0.02	0.01

Management's Responsibility for Financial Reporting

The accompanying financial statements and all information in the annual report are the responsibility of management. Management has prepared the financial statements in accordance with Canadian generally accepted accounting principles. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and, when necessary, management has made informed judgments and estimates in accounting for transactions that were not complete at the balance sheet date. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances as indicated in the notes to the financial statements. Financial information contained elsewhere in the annual report has been prepared and reviewed by management to ensure it is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are appropriately authorized, assets are protected and financial records are properly maintained to provide reasonable assurance that financial information is relevant and reliable.

The Audit and Reserves Committee is appointed by the Board of Directors, and comprises directors that are not employees of the Corporation. The Committee meets regularly with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is discharging its responsibilities, and to review the financial statements and the external auditors' report. The Board of Directors has approved the financial statements.

Steve Sugianto
President and
Chief Executive Officer

March 17, 2006

Shivon M. Crabtree
Vice President Finance and
Chief Financial Officer

Auditors' Report

To the Shareholders of Galleon Energy Inc.

We have audited the balance sheets of Galleon Energy Inc. as at December 31, 2005 and 2004 and the statements of operations and retained earnings (deficit) and cash flow for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2005 and 2004 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Calgary, Alberta
March 17, 2006

Balance Sheets

As at December 31 (audited)	*2005* $	*2004* $
ASSETS *(note 6)*		
Current		
Accounts receivable *(note 2)*	23,233,779	8,633,197
Inventory	1,107,847	835,581
Deposits and prepaid expenses	960,666	401,938
	25,302,292	9,870,716
Goodwill *(notes 2 and 3)*	10,138,976	10,138,976
Property and equipment *(notes 2,3,4 and 5)*	317,177,496	140,882,566
	352,618,764	160,892,258
LIABILITIES		
Current		
Accounts payable and accrued liabilities	42,677,142	19,284,009
Bank loan *(note 6)*	75,301,382	48,406,688
	117,978,524	67,690,697
Asset retirement obligations *(note 5)*	11,185,906	3,998,345
Future income taxes *(note 8)*	26,394,082	6,660,997
	155,558,512	78,350,039
Commitments *(note 10)*		
SHAREHOLDERS' EQUITY		
Share capital *(note 7)*	174,463,341	83,192,544
Contributed surplus *(note 7)*	4,755,980	1,129,044
Retained earnings (deficit)	17,840,931	(1,779,369)
	197,060,252	82,542,219
	352,618,764	160,892,258

See accompanying notes

Approved on behalf of the Board of Directors

W L Cooke   Fred C Coles

William L. Cooke, Director   *Fred C. Coles, Director*

Statements of Operations and Retained Earnings (Deficit)

(audited)	*2005*	*Twelve months ended December 31 2004*
	$	*$*
REVENUE		
Petroleum and natural gas	135,049,962	22,281,941
Crude oil hedge cost	–	(629,491)
Royalties, net of ARTC and GCA	(29,805,370)	(4,573,362)
Other income	25,902	27,391
	105,270,494	17,106,479
EXPENSES		
Transportation	3,601,106	859,344
Operating	15,804,878	3,423,506
General and administrative	4,438,274	1,968,069
Interest	2,388,842	338,681
Stock-based compensation *(note 7)*	3,949,884	1,129,044
Accretion	362,612	104,681
Depletion and depreciation	40,920,397	8,581,908
	71,465,993	16,405,233
Earnings (loss) before taxes	33,804,501	701,246
Capital and other taxes	957,936	289,467
Future income taxes *(note 8)*	13,226,265	579,662
NET EARNINGS (LOSS)	19,620,300	(167,883)
EARNINGS (DEFICIT), BEGINNING OF PERIOD	(1,779,369)	(236,486)
Repurchase of Class A shares *(notes 3 and 7)*	–	(1,375,000)
RETAINED EARNINGS (DEFICIT), END OF PERIOD	17,840,931	(1,779,369)
NET EARNINGS (LOSS) PER SHARE		
Basic	$0.67	($0.01)
Diluted	$0.63	($0.01)
Weighted average shares – basic	29,254,953	18,153,787
– diluted	31,046,035	19,603,898

See accompanying notes

Statements of Cash Flow

(audited)	*2005*	*Twelve months ended December 31 2004*
	$	*$*
Cash provided by (used in):		
OPERATING ACTIVITIES		
Net earnings (loss)	19,620,300	(167,883)
Add items not involving cash:		
Future income taxes	13,226,265	579,662
Depletion and depreciation	40,920,397	8,581,908
Accretion	362,612	104,681
Stock-based compensation *(note 7)*	3,949,884	1,129,044
FUNDS FROM OPERATIONS	78,079,458	10,227,412
Change in non-cash working capital	(6,398,688)	(2,479,218)
	71,680,770	7,748,194
FINANCING ACTIVITIES		
Issue of common shares	103,878,548	61,193,639
Share issue costs	(6,423,879)	(4,083,867)
Bank loan	26,894,694	48,406,688
Repayment of bank debt assumed in Venture and Inisfail acquisitions *(notes 2 and 3)*	–	(5,864,427)
	124,349,363	99,652,033
INVESTING ACTIVITIES		
Additions to oil and gas properties	(106,928,835)	(53,237,412)
Acquisition of oil and gas properties *(note 4)*	(103,461,542)	(49,454,960)
Acquisition of Inisfail Energy Ltd. *(note 2)*	–	(16,065,737)
Change in non-cash working capital	14,360,244	8,153,219
	(196,030,133)	(110,604,890)
DECREASE IN CASH	–	(3,204,663)
CASH, BEGINNING OF PERIOD	–	3,204,663
CASH, END OF PERIOD	–	–
SUPPLEMENTARY INFORMATION		
Cash interest paid	2,388,842	338,681
Cash taxes paid	957,936	289,467

See accompanying notes

Notes to the Financial Statements

1. Accounting Policies

NATURE OF BUSINESS AND BASIS OF PRESENTATION

Galleon Energy Inc. ("Galleon" or the "Corporation") was incorporated under the Business Corporations Act of Alberta on March 27, 2003. The business of the Corporation is the acquisition of, exploration for and development of petroleum and natural gas properties in western Canada. On January 1, 2005, Galleon and subsidiaries Venture Energy Inc. ("Venture") and Inisfail Energy Ltd. ("Inisfail") were amalgamated. Galleon is listed on the TSX under the symbols "GO.A" and "GO.B".

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), and have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

MEASUREMENT UNCERTAINTY

The amounts recorded for depletion and depreciation of property and equipment, the provision for asset retirement obligations and the ceiling test calculation are based on estimates of proven reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. Accruals for revenues and costs are prepared based on estimates when actual amounts are not yet known. Stock based compensation amounts are determined using certain assumptions (see note 7). By their nature, these estimates and assumptions are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents may include highly liquid short-term investments with initial maturities of three months or less. They are recorded at cost which approximates fair market value.

PROPERTY AND EQUIPMENT

Petroleum and natural gas properties and equipment

The Corporation follows the full cost method of accounting whereby all costs related to the exploration for and development of petroleum and natural gas reserves, whether productive or unproductive, are capitalized in one Canadian cost centre. Such costs include land acquisition, drilling, equipping, geological and geophysical and overhead expenses related to exploration and development activities. These costs are depleted on the unit of production method using estimated gross proven petroleum and natural gas reserves as determined by independent professional engineers. Petroleum and natural gas reserves are converted to a common unit of measure on an energy equivalent basis of six mcf of gas to one barrel of oil. Costs of acquiring and evaluating unproven properties are excluded from the depletion calculation until it is determined whether or not proven reserves are attributable to the properties or impairment occurs.

Proceeds from the sale of petroleum and natural gas properties and related equipment are applied against capitalized costs, with no gain or loss recognized, unless such a sale would result in a change in the rate of depletion of 20% or more.

Ceiling test

The Corporation evaluates its petroleum and natural gas assets in each reporting period to determine that the costs are recoverable. If the sum of the anticipated undiscounted cash flows from proved reserves, based on expected future escalating product prices and costs, exceed the carrying value of the assets the costs are considered recoverable. If the carrying value is not considered recoverable, an impairment loss is recognized to the extent that the carrying value exceeds the sum of the discounted cash flows expected from production of the proved and probable reserves.

Office furniture and equipment

Office furniture, equipment and other assets are recorded at cost and depreciated on a straight line basis over their estimated useful lives of three to five years.

GOODWILL

Goodwill, at the time of acquisition, represents the excess of the purchase price of a business over the fair value of net assets acquired; thereafter, goodwill is assessed for impairment at least annually. If the fair value of the business is less than the book value, a second test is performed to determine the amount of the impairment. The amount of the impairment is determined by deducting the fair value of the business' other assets and liabilities from the fair value of the business to determine the implied fair value of goodwill and comparing that amount to the book value of goodwill. Any excess of the book value of goodwill over the implied fair value is the impairment amount and will be charged to income in the period of the impairment.

ASSET RETIREMENT OBLIGATIONS

The Corporation follows the guideline for asset retirement obligations as set out in the CICA Handbook section 3110. This standard requires the recognition and measurement of liabilities related to the legal obligation to abandon and reclaim property, plant and equipment incurred upon acquisition, construction, development and/or normal use of the asset. The initial liability must be measured at fair value and subsequently adjusted for the accretion of discount and changes in the fair value. The asset retirement cost is capitalized as part of property and equipment and depleted into earnings over time. Actual costs incurred upon settlement of the obligations are charged against the liability.

REVENUE RECOGNITION

Petroleum and natural gas sales are recognized when delivery of the product has been completed and title passes to an external party.

JOINT INTERESTS

The Corporation's petroleum and natural gas activities may be conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

FUTURE INCOME TAXES

The liability method is used in accounting for income taxes. Under this method, future income tax assets and liabilities are recognized based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period in which the change is substantively enacted.

FLOW-THROUGH SHARES

The Corporation has financed a portion of its exploration and development activities through the issuance of flow through shares. Under the terms of the flow through share agreements, the tax attributes of the related expenditures are renounced to subscribers. To recognize the foregone tax benefits to the Corporation, the carrying value of the shares issued is reduced by the tax effect of the tax benefits renounced to subscribers when the renouncements are filed.

FINANCIAL INSTRUMENTS

The Corporation periodically enters into commodity price derivative instruments to reduce the Corporation's exposure to adverse fluctuations in commodity prices. No contracts are entered into for trading or speculative purposes. Gains and losses relating to commodity swaps that meet hedge criteria are recognized in the statement of operations concurrently with the hedged transaction.

STOCK-BASED COMPENSATION

The Corporation follows the accounting standard on stock based compensation as presented in the CICA Handbook section 3870. This standard requires the recognition of stock-based compensation expense "awards to" or "grants to" for employees and non-employees using the fair value method.

The standard requires the fair value of all stock based compensation awards to be expensed over the vesting period of the award with an offsetting credit to contributed surplus. The Black-Scholes option pricing model has been used to calculate the fair value of the stock options granted. Consideration paid by optionees on the exercise of stock options is credited to share capital together with any amount previously included in contributed surplus.

2. Acquisition of Inisfail Energy Ltd.

On July 28, 2004, the Corporation acquired all of the issued and outstanding shares of Inisfail. The Inisfail acquisition was accounted for by the purchase method and shares were acquired for cash of $15,128,219 plus the assumption of $3,967,733 of net debt. Transaction costs included a cash payment of $868,000 for outstanding share options.

The acquisition was accounted for as of the closing date with the purchase price allocated to assets and liabilities as shown below.

Calculation of Purchase Price	$
Cash for purchase of shares	15,128,219
Transaction costs	937,518
	16,065,737

Allocation of Purchase Price	
Property and equipment	16,905,910
Goodwill	7,500,787
Bank debt and working capital assumed	(3,967,733)
Asset retirement obligations	(643,865)
Future income taxes	(3,729,362)
	16,065,737

3. Acquisition of Venture Energy Inc.

On January 15, 2004, the Corporation acquired all of the issued and outstanding shares of Venture. The Venture acquisition was accounted for by the purchase method and shares were acquired for an aggregate of $17,770,311 by the issuance of 5,923,437 Class A shares of Galleon at a deemed value of $3.00 per share plus the assumption of $1,896,694 of net debt. Prior to the acquisition, Venture owned 500,000 of the Class A shares of the Corporation. At the time of the acquisition, the fair value of the 500,000 Class A shares was $1,500,000.

An adjustment of $1,375,000 being the difference between cost and fair value was made to retained earnings. The 500,000 Class A shares were cancelled on January 25, 2005.

Calculation of Purchase Price	$
Fair value of shares issued	17,770,311
Transaction costs	34,236
	17,804,547

Allocation of Purchase Price	
Property and equipment	16,500,000
Fair value of Galleon Class A shares	1,500,000
Goodwill	2,638,189
Bank debt and working capital assumed	(1,896,694)
Asset retirement obligations	(451,088)
Future income taxes	(485,860)
	17,804,547

4. Property and Equipment

On May 18, 2005, the Corporation completed an acquisition of interests in certain oil and gas properties in the Dawson, Alberta area for cash of $91.4 million net of adjustments. In addition, the Corporation completed three purchases of interests in certain oil and gas properties for cash in aggregate of $12.1 million net of adjustments in 2005. In 2004, the Corporation purchased interests in oil and gas properties, gas plants and gathering systems in the Dawson area for cash of $47 million.

At December 31, 2005, $33.1 million (December 31, 2004 – $17.4 million) of undeveloped land and seismic costs have been excluded from and $52.9 million (December 31, 2004 – $7.4 million) in future development costs have been added into the depletion calculation. In 2005, $469,000 (2004 – $219,000) of exploration salaries have been capitalized.

	Cost $	Accumulated Depletion & Depreciation $	Net Book Value $
Petroleum and natural gas properties & equipment	**369,512,834**	**52,768,125**	**316,744,709**
Office furniture and equipment	**539,017**	**106,230**	**432,787**
Balance at December 31, 2005	**370,051,851**	**52,874,355**	**317,177,496**

	Cost $	Accumulated Depletion & Depreciation $	Net Book Value $
Petroleum and natural gas properties & equipment	152,672,746	11,919,571	140,753,175
Office furniture and equipment	163,778	34,387	129,391
Balance at December 31, 2004	152,836,524	11,953,958	140,882,566

The Corporation has performed the ceiling test using the benchmark reference prices at December 31, 2005 for the years 2006 to 2011 and adjusted for commodity differentials specific to the Corporation. Beyond year 2011, the price forecast escalates on average 2% per year. A foreign exchange rate of $0.86 US to $1.00 Cdn was used.

BENCHMARK REFERENCE PRICE FORECASTS:

	2006	2007	2008	2009	2010	2011
WTI USD/Bbl	58.00	56.38	52.53	51.69	52.72	53.78
Alberta spot $Cdn/Mcf	10.37	9.65	8.53	7.86	7.12	6.89

5. Asset Retirement Obligations

The Corporation's asset retirement obligations result from net ownership interests in petroleum and natural gas assets including well sites, gathering systems and processing facilities. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations is approximately $17.5 million, which will be incurred over the next 16 years. A credit adjusted risk free rate of 5% and an inflation rate of 1.5% were used to calculate the fair value of the asset retirement obligation.

A reconciliation of the asset retirement obligations is provided below:

Year ended December 31,	2005 $	2004 $
Balance, beginning of year	**3,998,345**	660,271
Accretion expense	**362,612**	104,681
Liabilities incurred due to development activities	**820,689**	2,122,526
Liabilities acquired	**6,004,260**	1,110,867
Balance, end of year	**11,185,906**	3,998,345

6. Drawings Against Available Credit Facilities

The Corporation has a $100 million extendible revolving term credit facility in place with a Canadian chartered bank. The interest rate charged on the loan varies based on a ratio of the debt to cash flow. In addition, the Corporation has in place a $3.5 million US swap facility. Collateral for the facilities consists of a demand debenture for $150 million secured by a first floating charge over all of the property and equipment of the Corporation. At December 31, 2005, an amount of $75,301,382 was drawn against the credit facilities (December 31, 2004 – $48,406,688). At December 31, 2005, BA rates averaged 4.28% on $60 million with the remaining $15.3 million charged at the prime rate.

7. Share Capital

AUTHORIZED

Unlimited number of preferred shares with no par value.

Unlimited number of voting Class A shares with no par value.

Unlimited number of voting Class B shares with no par value, convertible (at the option of the Corporation) at any time after December 31, 2006 and before December 31, 2008, into Class A shares. The conversion factor is calculated by dividing $10 by the greater of $1 and the then current market price of Class A shares. If conversion has not occurred by the close of business on December 31, 2008, the Class B shares become convertible (at the option of the shareholder) into Class A shares on the same basis. Effective February 1, 2009, all remaining Class B shares will be deemed to be converted to Class A shares.

Issued and outstanding	*Number of Shares*	*Amount $*
Class A shares		
Balance at December 31, 2003	8,300,001	1,794,206
Issued on acquisition of Venture *(note 3)*	5,923,437	17,770,311
Repurchase of shares held by Venture *(note 3)*	(500,000)	(125,000)
Issue of Special Warrants for cash *(a)*	3,000,000	12,000,000
Issued for cash *(a)*	3,000,000	24,000,000
Issue of flow through shares for cash *(b)*	2,000,000	25,000,010
Share issue costs, net of tax of $1,436,012 *(a)(b)*	–	(2,647,856)
Issued for cash on exercise of stock options	147,333	193,629
Balance at December 31, 2004	21,870,771	77,985,300
Issued for cash *(a)*	4,225,355	45,000,041
Issue of subscription receipts for cash *(a)*	3,794,000	37,940,000
Issue of flow through shares for cash *(b)*	1,600,000	20,000,000
Tax effect of flow through shares *(b)*	–	(8,750,000)
Share issue costs, net of tax of $2,243,180 *(a)(b)*	–	(4,180,699)
Issued for cash on exercise of stock options	336,750	938,507
Transfer from contributed surplus *(c)*	–	322,948
	31,826,876	169,256,097
Class B shares		
Balance at December 31, 2004 and 2005	922,500	5,207,244
Total share capital – December 31, 2005	**32,749,376**	**174,463,341**

a) On May 12, 2005 the Corporation issued 3,794,000 subscription receipts at $10.00 each for gross proceeds of $37,940,000. Each subscription receipt entitled the holder to acquire one Class A share, without the payment of any additional consideration, upon the closing of the acquisition of properties at Dawson, Alberta. Proceeds from the issuance of the subscription receipts were placed in escrow and were released at the closing of the acquisition on May 18, 2005. The shares issued were subject to a hold period under applicable securities laws which expired on September 13, 2005.

On February 10, 2005, the Corporation issued 4,225,355 Class A shares at $10.65 per share for gross proceeds of $45 million. The shares issued were subject to a hold period under applicable securities laws which expired on June 11, 2005.

On August 4, 2004, the Corporation issued 3,000,000 Class A shares at $8.00 each for gross proceeds of $24 million. The shares issued were subject to a hold period under applicable securities laws which expired December 5, 2004.

On February 10, 2004, the Corporation issued 3,000,000 Special Warrants at $4.00 each for gross proceeds of $12 million. Each Special Warrant entitled the holder to receive one Class A share without payment of any additional consideration, subject to adjustment in certain events. The resale of the Special Warrants and the Class A shares issuable on exercise thereof was initially subject to a hold period expiring February 11, 2005. On March 30, 2004 certain amendments to securities legislation came into effect which changed the hold period to June 11, 2004. Also as a result of the amendment, the Special Warrants were deemed to be exercised into Class A shares.

b) On May 12, 2005, the Corporation issued 1,600,000 Class A shares on a flow through basis at $12.50 each for gross proceeds of $20 million. The shares issued were subject to a hold period under applicable securities laws which expired on September 13, 2005. Under the look back provision governing flow-through shares, the Corporation is required to incur these eligible expenditures prior to December 31, 2006.

On November 23, 2004, the Corporation issued 1,000,000 Class A shares at $15.00 each on a flow through basis for gross proceeds of $15 million. The shares issued were subject to a hold period under applicable securities laws expiring March 24, 2005.

To December 31, 2005, these expenditures have been incurred.

On June 17, 2004, the Corporation issued 1,000,000 Class A shares at $10.00 each on a flow through basis for gross proceeds of $10 million. The shares issued were subject to a hold period under applicable securities laws which expired October 18, 2004. These expenditures were incurred in 2004.

In January 2005, the Corporation renounced expenditures of $25 million to the shareholders effective December 31, 2004.

c) The Corporation reclassified stock based compensation recorded in contributed surplus related to share options exercised of $322,948 in 2005 (nil – 2004).

STOCK OPTIONS

The Corporation has a stock option plan which was approved on May 19, 2005. The exercise price of each option equals the market price of the Corporation's Class A shares on the date of the grant. Compensation expense is recognized as the options vest (one third immediately and one third on each of the first and second anniversaries of the date of the grant). The options expire five years from the date of grant. The Corporation may grant up to 10% of the aggregate number of Class A shares and Class B shares outstanding and no one optionee is permitted to hold options entitling such optionee to purchase more than 5% of the aggregate number of issued and outstanding Class A and Class B shares. Class A shares have been reserved for all options granted.

In accordance with the Corporation's accounting policy with respect to stock based compensation, an expense of $3,949,884 has been recognized in 2005 ($1,129,044 - 2004).

The fair value of options granted were estimated at the date of grant using a Black-Scholes Option Pricing Model with the following assumptions: risk-free interest rates of 2-3%; dividend yield of 0%; volatility factors of the market price of the Corporation's common shares of 40-46%; and, an average expected life of the options of three years.

	Number of Shares	2005 Weighted Average Exercise Price $	Number of Shares	2004 Weighted Average Exercise Price $
Opening	1,792,667	3.74	900,000	0.35
Granted	1,705,000	12.37	1,040,000	6.33
Cancelled	(68,333)	(11.06)	–	–
Exercised	(336,750)	(2.79)	(147,333)	(1.31)
Closing	3,092,584	8.44	1,792,667	3.74

The following table summarizes information regarding stock options at December 31, 2005.

	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price $	Number Exercisable	Weighted Average Exercise Price $
Exercise price					
0.35	549,000	2.75	0.35	549,000	0.35
4.26-8.60	839,667	3.37	5.90	546,333	5.93
10.00-14.50	1,373,917	4.44	10.63	480,583	10.60
18.00-21.50	330,000	4.89	19.19	110,000	19.19
	3,092,584		8.44	1,685,916	6.31

EARNINGS PER SHARE

The Corporation utilizes the treasury stock method in the determination of diluted per share amounts. Under this method, the diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding and in the money options are used to purchase common shares of the Corporation at their average market price for the period.

The weighted average number of Class A shares outstanding during the year was 29,254,953 and 31,046,035 diluted (2004 – 18,153,787 and 19,603,898, respectively). The diluted weighted average number of Class A shares outstanding after deemed conversion of the Class B shares is 31,653,342 (2004 – 20,780,149).

8. Future Income Taxes

The components of the future income tax liability are as follows:

	2005 $	2004 $
Differences between tax base and reported amounts for depreciable assets	**30,285,615**	12,743,773
Benefit of non-capital losses	–	(3,051,261)
Benefit of attributed crown royalty income	**(832,189)**	(299,342)
Share issue costs	**(2,730,817)**	(1,328,449)
Asset retirement obligations	**(328,527)**	(1,403,724)
	26,394,082	6,660,997

Income taxes recorded in the Statement of Operations and Retained Earnings (Deficit) are different than the amount computed by applying the combined Canadian federal and provincial corporate tax rates of 38% to the income before income taxes. The majority of these differences are explained as follows:

	2005 $	2004 $
Expected tax	**12,855,362**	275,730
Add (deduct) income tax effect of:		
Non-deductible crown royalties	**6,804,146**	1,181,138
Resource allowance	**(5,886,208)**	(747,849)
Attributed crown royalty income	**(514,674)**	(237,594)
Stock-based compensation	**1,500,561**	443,940
Non-taxable or non-deductible items	**32,652**	16,339
Rate adjustments and other	**(1,565,574)**	(352,042)
	13,226,265	579,662

9. Financial Instruments

At December 31, 2005 and 2004, the Corporation had no derivative contracts outstanding.

Financial instruments recognized on the balance sheet include accounts receivable, deposits and prepaid expenses, accounts payable and bank loans. As at December 31, 2005 and 2004, there are no significant differences between the carrying amounts reported on the balance sheet and their estimated fair values.

A portion of the Corporation's accounts receivable are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. In December 2005, approximately 73% (December 2004 – 75%) of the Corporation's oil and gas sales were made to one Canadian marketer.

10. Commitments

The Corporation has commitments as follows:

	2006	2007	2008
Office lease	457,787	471,544	279,749
Purchase commitments	6,027,069	–	—
Employment obligation	143,367	–	–
Total	6,628,223	471,544	279,749

The purchase commitments relate to equipment which is on order for gas plant and oil facilities construction. The employment obligation relates to a commitment made to one employee in 2003.

11. Subsequent Events

On January 17, 2006, the Corporation's syndicated credit facilities were increased to $120 million with collateral increasing to $300 million.

On January 24, 2006, the Corporation announced that it had entered into a private placement to issue 1,650,000 Class A shares at $24.25 each for gross proceeds of $40 million. The underwriters were given an option for an additional 620,000 Class A shares which was exercised prior to closing. In total, 2,270,000 Class A shares were issued for gross proceeds of $55 million on February 14, 2006. The shares issued are subject to a hold period under applicable securities laws expiring June 15, 2006.

12. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

Corporate Information

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www.galleonenergy.com

Board of Directors

John A. Brussa [2] [3]

Glenn R. Carley, Executive Chairman [2]

Fred C. Coles [1] [2]

William L. Cooke [1] [3]

Brad Munro [1]

Steve Sugianto

[1] *Member of the Audit and Reserves Committee*
[2] *Member of the Compensation Committee*
[3] *Member of the Corporate Governance Committee*

Officers

Glenn R. Carley
Executive Chairman

Steve Sugianto
President and Chief Executive Officer

Shivon M. Crabtree
VP Finance & Chief Financial Officer

Tom Greschner
VP Production

Brent Lacey
VP Exploration

C. Steven Cohen
Secretary

Auditor

Ernst & Young LLP, Calgary, Alberta

Bank

The Canadian Imperial Bank of Commerce
Calgary, Alberta

The Bank of Nova Scotia
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Evaluation Engineers

DeGolyer and MacNaughton
Canada Limited

Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company

Calgary, Alberta

Stock Exchange Listing

TSX, Trading Symbols GO.A and GO.B

The Shipmates

Brad Johnston
Brent Lacey
Carolee Pearce
Chris Tibbles
Connie Hart
Curtis Kramchynski
Dale Orton
Dawn Edwards
Devin Sundstrom
Don Hiebert
Dora Osterling
Glen Meade

Glenn Carley
Jim Iverson
Jocelyn Christensen
Joe Stuhec
Keith Gordon
Laura Hardman
Leslie Dunbar
Lindsay Newman
Lisa Adam
Lisa Teslak
Mantu Sihota
Marc Houle

Mary MacNeill
Nicole Owen
Ruth Onyett
Shannon Blacker
Shivon Crabtree
Steve Glavac
Steve Sugianto
Tanis James
Tom Greschner
Travis Brookson
Wayne Chow

Company Definition

Throughout the Annual Report Galleon Energy Inc. is referred to as "Galleon", or the "Corporation".

Volume Reporting

Barrel of oil equivalent (Boe) (6:1) figures for the periods presented throughout this document are expressed at a conversion rate of six thousand cubic feet of natural gas to one barrel of crude oil Boes may be misleading, particularly if used in isolation. The forgoing conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

GALLEON
ENERGY INC.

TSX: GO.A